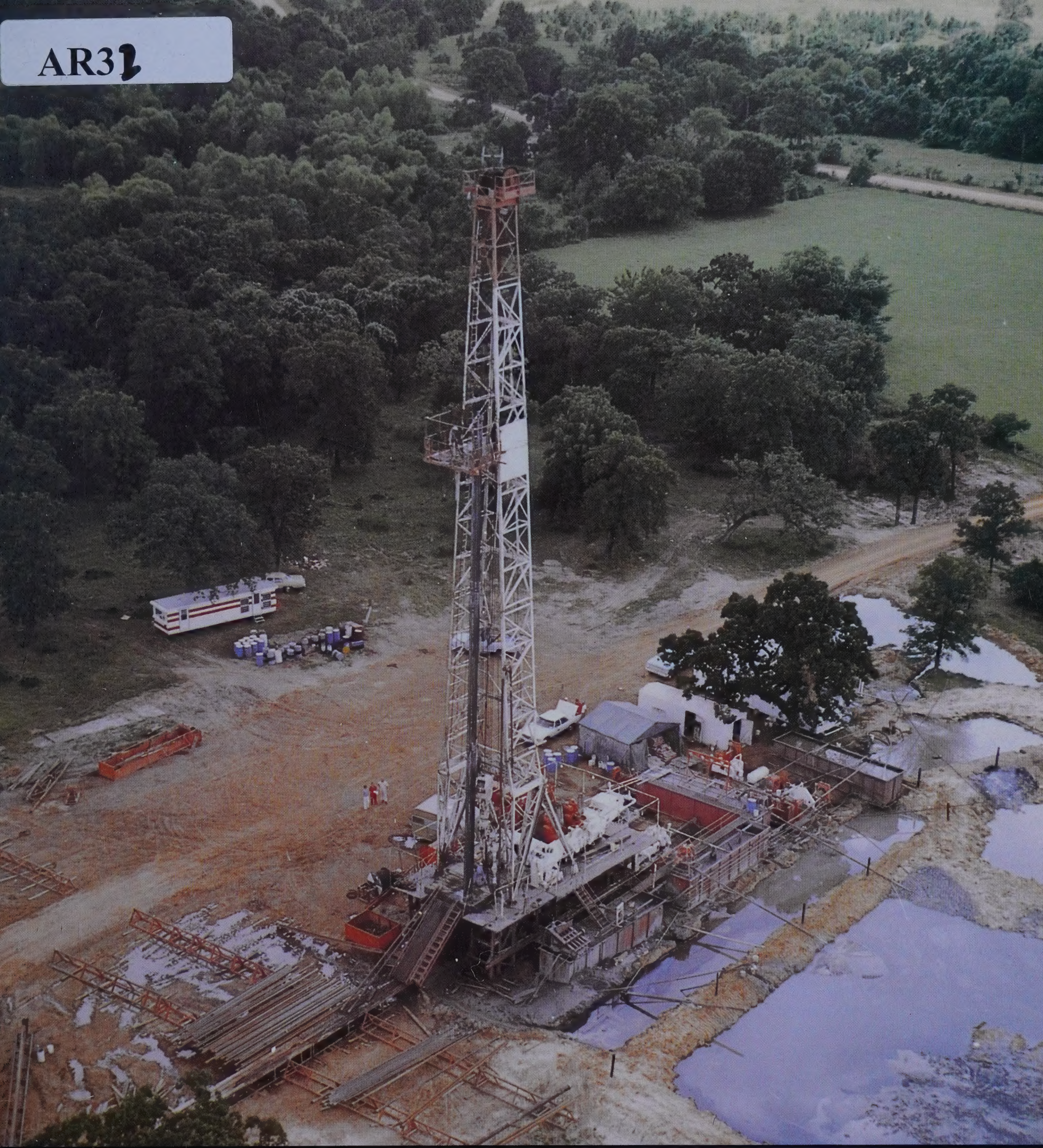


BONANZA

ANNUAL REPORT '76

Amalgamated Bonanza Petroleum Ltd.
and Subsidiary Companies

HEAD OFFICE
1800, 444 - 5th Ave. S.W.
Calgary, Alberta
Phone: 403-263-6250

EXPLORATION OFFICE
316 - 10575 Katy Freeway
Houston, Texas, 77024
Phone: 713-464-1521

SUBSIDIARY COMPANIES
Bonanza Exploration Ltd.
Bonanza Resources, Inc.

TRANSFER AGENT
Montreal Trust Company

BANKERS
Canadian Imperial Bank of Commerce
First City National Bank of Houston

AUDITORS
Thorne Riddell & Co.

SOLICITORS
Macleod Dixon, Calgary
Vinson, Elkins, Houston

STOCK EXCHANGE LISTING
Toronto Stock Exchange
(Trading Symbol ABN)

DIRECTORS AND OFFICERS

John J. Fleming
President and Director
Calgary, Alberta

William A. Bell
Vice President and Director
Calgary, Alberta

David G. Ferguson
Director
Calgary, Alberta

Seymour Schulich
Director
Montreal, Quebec

Donald L. Hall
Manager - U.S. Operations
Houston, Texas

COVER
Discovery well drilling in Brazos County, Texas.

ANNUAL MEETING
Annual meeting will be held at the Four Seasons Hotel in Calgary, Alberta on February 28, 1977.

Highlights

	Fiscal Year Ended September 30			
	1976 (000)	1975 (000)	1974 (000)	1973 (000)
FINANCIAL				
Gross Revenue	$ 2,745	$ 1,717	$ 828	$ 398
Per Share	75¢	47¢	23¢	11¢
Cash Flow-Operations	1,907	1,197	466	124
Per Share	53¢	33¢	13¢	4¢
Net Earnings — Operations	711	304	154	56
Per Share	19¢	8¢	4¢	2¢
Dividends	107	107	—	—
Per Share	3¢	3¢	—	—
Working Capital	423	1,009	1,845	2,646
Capital Expenditures	7,823	2,229	2,889	2,434
Total Assets	17,106	10,086	9,595	7,349
Per Share	4.66	2.80	2.66	2.04
Shareholders' Equity	9,337	6,808	6,589	5,727
Per Share	2.54	1.89	1.83	1.59
Shares Outstanding	3,671,636			
OPERATIONS				
Gas Production	2,156	1,195	—	—
(Millions cubic feet Per Day)	5.1	3.3	—	—
Oil Production (Barrels)	225,000	154,861	93,372	12,755
Per Day	620	424	255	34

To the Shareholders

John J. Fleming, President; William A. Bell, Vice President.

During the 1976 fiscal year the company achieved the short term objective stated in 1972; namely, to convert the company's then existing cash assets of approximately $3 million into a diversified portfolio of revenue producing properties that would establish a stable revenue base enabling the company to participate in larger exploratory ventures.

In this regard new record levels of revenue, cash flow and net earnings were established during 1976, and the company's present daily production of 1000 barrels of oil and 10 million cubic feet of natural gas will provide a dramatic increase in cash flow during the 1977 fiscal year.

The foregoing does not reflect potential production from wildcat discoveries made during the latter part of 1976 in Brazos County, Texas, and Routt County, Colorado. Extensive development drilling is contemplated in both areas during 1977 which if successful could materially increase the company's daily production.

The company has concentrated on placing proven oil and gas properties in Canada on stream and has now reached the point where approximately 50% of the 1977 estimated cash flow of $4.5 million will come from Canada and the balance from the U.S.A.

The main exploratory activities of the company during 1976 were conducted in the U.S.A. which resulted in new discoveries in Routt County, Colorado, Brazos County, Texas, and Chambers County, Texas. In addition to our belief that there are greater

opportunities for finding significant new reserves in the U.S.A., the following economic advantages exist in that country:

a) New production can be placed on stream in a matter of weeks; whereas, in Canada new production generally takes 2 years to be placed on stream.

b) Prices for oil and gas in the U.S.A. are $12 per barrel and $2 per MCF respectively, while corresponding prices in Canada are $9.50 and $1.15.

c) Net pre-tax returns to the producer in the U.S.A. average $8.20 per barrel and $1.40 per MCF while corresponding net returns in Canada average $4.00 per barrel and 60¢ per MCF.

d) No significant production restrictions exist in the U.S.A. In Canada, oil production is restricted by the prorationing scheme, and new gas production cannot be brought on stream for a minimum of 2 years because Trans Canada PipeLines Ltd. will execute no further gas contracts during that period.

It is also our view that the American dollar will trade at a premium to its Canadian counterpart in the foreseeable future and that it will be in the company's best interest to have a revenue stream flowing from that country.

Subsequent to the year end, the company placed privately $2,750,000 convertible debentures, the proceeds from which were used to repay bank indebtedness; thereby freeing the company's bank lines of credit, which at the present time total $8 - $10 million. However, cash flow from existing operations together with additional revenues resulting from the continued development of recent U.S. discoveries will enable the Company to finance all foreseeable exploration and development expenditures in both Canada and the U.S.A. during 1977.

The Company's exploration program during 1977 will continue to be enhanced by the use of drilling funds provided by certain German investors. Such funds have been used on a continuous basis during the past two years.

Submitted on Behalf of the Board

Fleming

John J. Fleming
President

Company History and Management Profile

Amalgamated Bonanza Petroleum Ltd. is a Calgary-based petroleum and natural gas company engaged in conventional exploration and development in Western Canada and the Western United States. The Company has been concentrating its efforts in Louisiana, Texas and Colorado in the United States and in the Plains area of Alberta in Canada.

The Company was originally incorporated in Alberta as Canadian Bonanza Petroleums Ltd. in September, 1966, and became a public company with a listing on the Calgary Stock Exchange a year later, after successfully raising $200,000 by the sale of 500,000 common shares. In 1969 Frisco Petroleums Ltd. was acquired in exchange for stock, and this acquisition provided the company with its first significant petroleum and natural gas production interests. Frisco had an interest in 50 oil wells and 13 gas wells in the Countess-Lathom area of southeastern Alberta. The development of these properties was financed with a $2,500,000 production loan and a further $500,000 private placement. All of the shares of Frisco Petroleums Ltd. were sold in 1972 to Canadian Industrial Gas & Oil Ltd. (CIGOL), now part of Norcen Energy Resources Limited, in exchange for 755,000 CIGOL common shares valued at $10.00 each. CIGOL also assumed approximately $3,000,000 of production debt. After a tax-free distribution of 65¢ per share in CIGOL stock, Bonanza finished up its 1972 year with $3,000,000 in the treasury and a small professional staff.

Bonanza then embarked on a program of low-risk oil and gas projects in Alberta to establish long-term sources of cash flow. At the same time, a subsidiary, Bonanza International Petroleum Ltd., was created to engage in higher risk exploration in Louisiana and other foreign areas. In a share offering in 1973, 25% of this subsidiary was sold to the public for $1,260,000 to provide exploration funds. A further $1,572,000 was raised in late 1973 in a rights issue for Bonanza International.

In order to remove certain conflicts in respect to the allocation of exploration funds, Canadian Bonanza and its subsidiary, Bonanza International, were merged in April, 1974, to form the present company, Amalgamated Bonanza Petroleum Ltd. In March, 1976, the Company acquired the Canadian oil and gas properties of the Gage Company of Denver, Colorado, at the price of $2,700,000.

As a result of its exploration and development efforts since 1972 and its program of property acquisitions, Bonanza has established North American production of 1000 barrels per day of crude oil and 10.0 MCF/D of natural gas from a proven and probable reserve base of 2.6 million barrels of oil and 90 BCF of natural gas. An independent petroleum consultant's appraisal of these reserves as at July 1, 1976, places a value on them of $28,500,000 before tax and using a 9% rate of discounting future production revenues.

Cash flow from operations is now at the annualized level of $4.5 million or $1.20 per share.

The operating philosophy of the Company's management has been to maintain a small but flexible nucleus of professional staff whose combined abilities cover the disciplines of geology, petroleum engineering and finance. The three key officers of the Company are John J. Fleming with 13 years experience in finance; William A. Bell, whose experience covers 16 years in geology and drilling funds; and Donald L. Hall, with 25 years of geological and petroleum engineering experience in Texas and South Louisiana. This professional staff unit has been able to maintain its flexibility by utilizing outside consultants and Joint Venture Partners for drilling and production operations, plus other contract service groups to provide necessary drafting and accounting.

Exploration and development has been restricted to conventional exploration regions in North America with specific emphasis on programs in Alberta, Louisiana and Texas. In these regions, there is ready access to markets such that development of production can proceed almost immediately after the exploration phase. As well, field operators are readily available and production loan financing can be obtained with a minimum of difficulty. Given this approach of using a small well-balanced professional staff and concentrating efforts in conventional North American exploration regions, Bonanza has been able to increase the stock market value of the Company approximately eight-fold since 1972, from $3.0 million at that time to over $26 million in December 1976.

Financial

During the year ended September 30, 1976, cash flow from recurring operations was $1,907,579 (53¢ per share) as compared to $1,197,045 (33¢ per share) in the prior year. Net earnings from recurring operations totalled $711,892 (19¢ per share) as compared to $304,576 (8¢ per share) in the prior year.

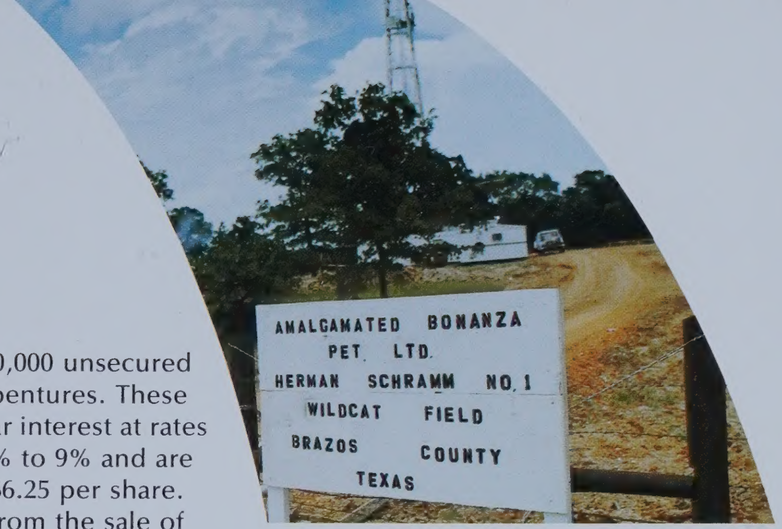
In addition, during the 1976 fiscal year the company sold certain non-producing gas properties in the Long Coulee area of Southern Alberta for a total cash consideration of $3.2 million, realizing a net after-tax gain of $1,760,359 (48¢ per share.) These properties were sold because of the required large expenditures to place the properties on stream and the two year development period before flows would commence.

In March, 1976, Bonanza acquired all of the Canadian oil and gas properties of the Gage Company (a Colorado limited partnership) for $2.7 million. These properties are currently contributing in excess of $650,000 per year to Bonanza's cash flow and have additional development potential.

Subsequent to September 30, 1976, the company through its agent, Wood Gundy Limited, placed privately with institutional investors $2,750,000 unsecured convertible debentures. These debentures bear interest at rates varying from 7% to 9% and are convertible at $6.25 per share. The proceeds from the sale of debentures was used to repay bank loans. The debentures are repayable at the rate of $437,500 in each of the years 1980 to 1983 inclusive with an additional payment of $1,000,000 in 1981.

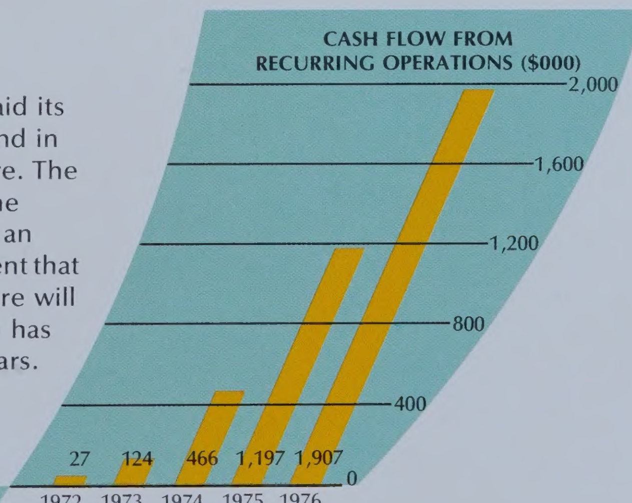
The company expects to carry out a sizeable exploration and development program primarily in Alberta, Texas, Colorado and Louisiana during 1977. This program will be conducted using cash flow from operations and, if necessary, unused lines of credit with both Canadian and American banks.

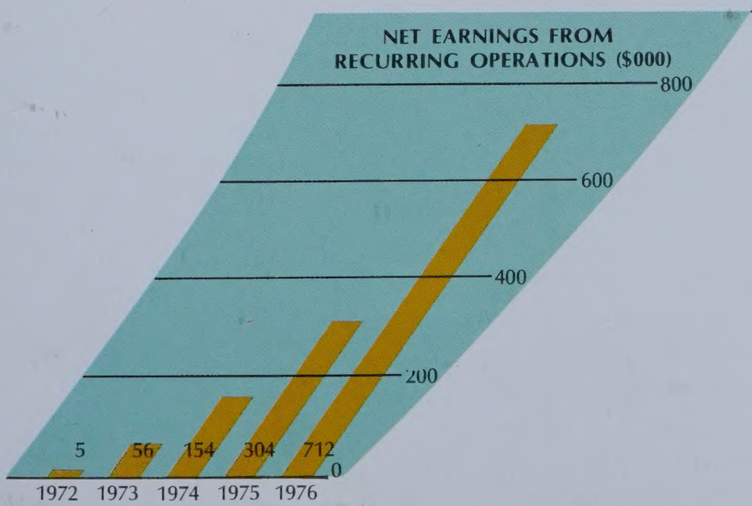
During the year ended September 30, 1976, the company declared and paid its second successive dividend in the amount of 3¢ per share. The company contemplates the payment of dividends on an annual basis and is confident that dividend rates in the future will be somewhat higher than has been the case in prior years.



Stock Trading

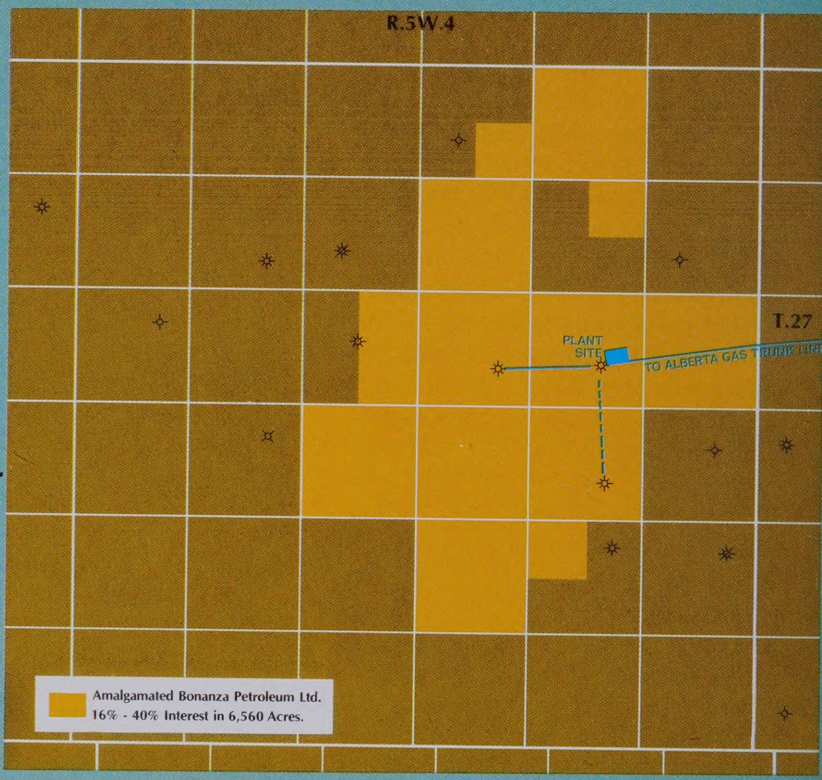
The shares of the company are listed on the Toronto Stock Exchange and trade under the symbol "ABN." During the year ended December 31, 1976, a total of 2.3 million shares of the company traded from a low of $2.50 to a high of $7.50 per share. As at December 31, 1976, the company had approximately 2000 registered shareholders.



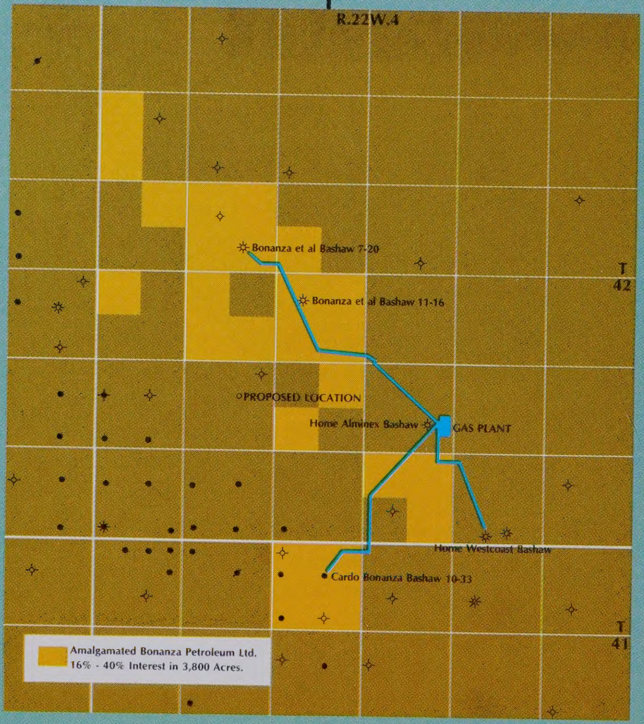


AREAS OF INTEREST IN WESTERN CANADA

KIRKWALL PROSPECT



BASHAW PROSPECT



HATTON PROSPECT

Western Canada

Bashaw Gas Plant.

During 1976, the company participated in the drilling of 34 wells in Western Canada — primarily in the province of Alberta. Of this total, 24 wells were completed as potential oil or gas wells and 10 wells were abandoned. The company has continued to participate in low-risk drilling ventures in Western Canada and concentrate on developing and placing on stream its proven properties.

During 1977, the company will continue to develop its large undrilled acreage in Alberta and expand somewhat its exploratory program in that province. The company is now realizing oil or gas production revenue from 15 separate areas in Western Canada. Comments on three of these areas follow:

Hatton

This is the only project that the company has in the province of Saskatchewan and although the company's share of present production (3.5 million cubic feet per day) produces substantial cash flow to Bonanza, its future development is difficult to predict. Bonanza owns 45% of approximately 35,000 acres in this area — 25% of which has been developed and placed on stream. Three potentially productive horizons are present; namely, Milk River, Medicine Hat and Second White Specks with the former two having excellent producing characteristics.

An increase in gas price from the present rate of 26¢ per MCF (24¢ net) together with an increase in the allowable production from the area must be granted by the Saskatchewan government before further development of these proven reserves can be undertaken.

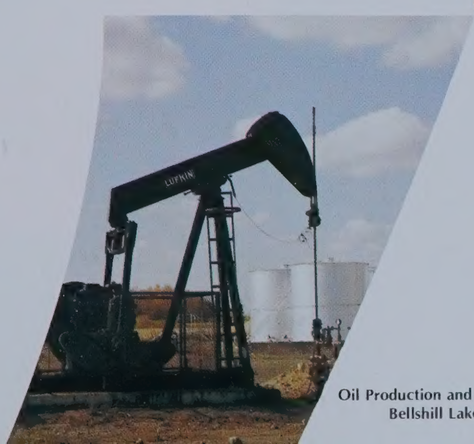
Bashaw

The company participated in the drilling of three wells in this area during 1975 where interests varying from 16% to 40% are owned in 3800 acres. A 12 million cubic feet per day gas plant in which Bonanza has a 14% interest was completed during August, 1976. Bonanza's share of production from this project, which commenced in October, 1976, is approximately 1.8 million cubic feet per day. At least one additional well will be drilled in this area during 1977.

Kirkwall

Bonanza owns a 50% working interest in 6,560 acres in this project which includes a gas plant and gas gathering facilities. Bonanza's share of production from this project is presently 1.5 million cubic feet per day from 2 wells. A third well which was successfully completed subsequent to the year end should be on stream by February 15, 1977, and will add approximately .6 million cubic feet to the company's share of production. Four additional wells could be drilled in this project during the next two years.

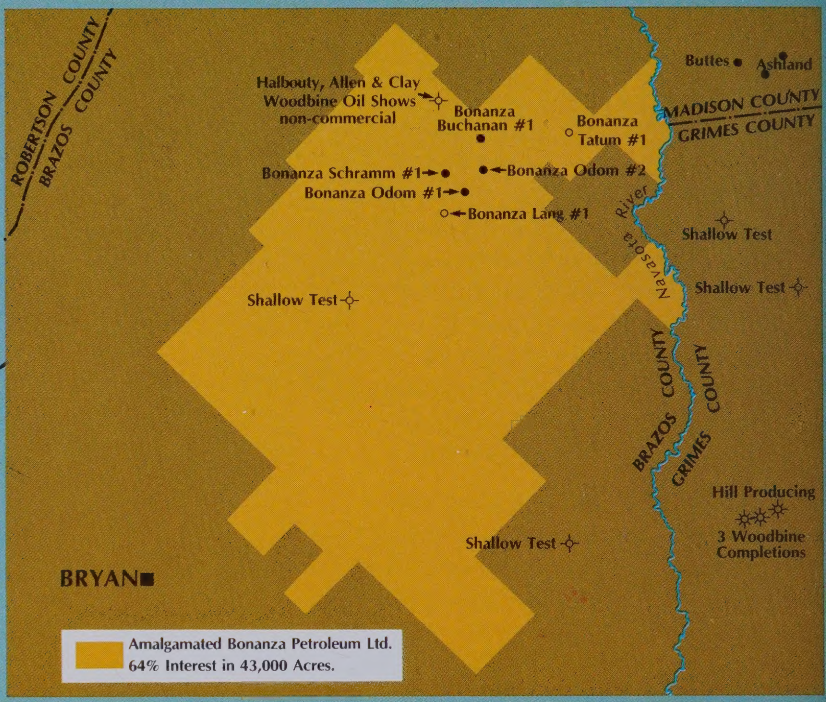
Gas Wellhead and Separator
Provost, Alberta.



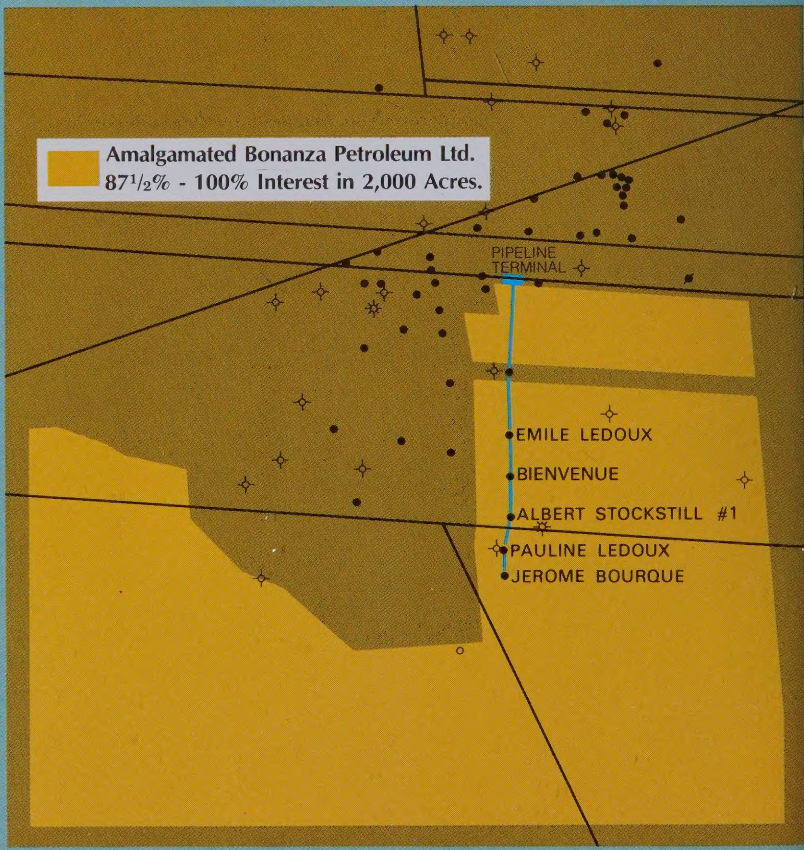
Oil Production and Storage Facilities
Bellshill Lake, Alberta.

AREAS OF INTEREST IN THE UNITED STATES OF AMERICA

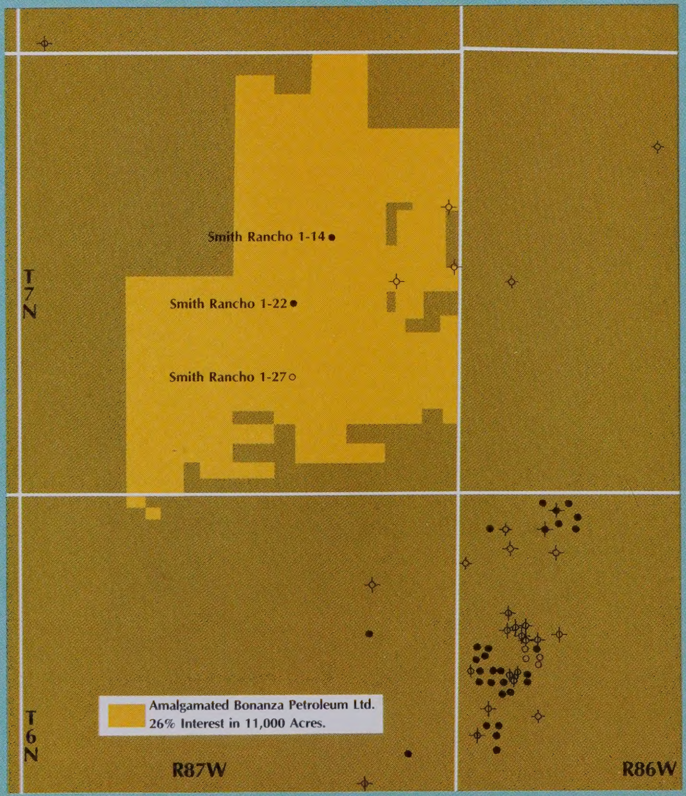
BRAZOS PROSPECT, TEXAS



ST. MARTINVILLE FIELD, SOUTH LOUISIANA



TOW CREEK PROSPECT, COLORADO



United States

Bonanza Schramm No. 1
Discovery Well, Brazos, Texas.

During 1976 the company participated in the drilling of 13 wells in the United States. Of this total 7 were completed as potential oil or gas wells and 6 were abandoned.

Brazos County, Texas

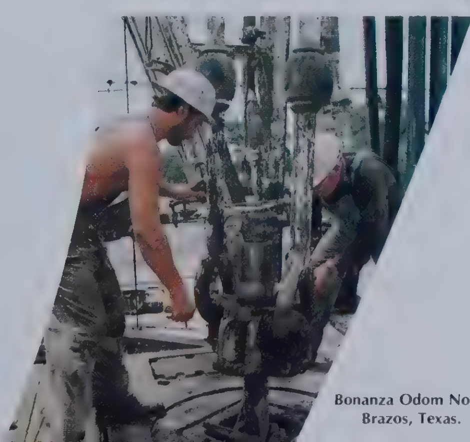
Bonanza has a 64% net interest in petroleum and natural gas rights on approximately 43,000 acres in the northern part of Brazos County, Texas, an area which lies some 100 miles north of Houston. The initial well, Bonanza No. 1 Schramm, was an oil discovery from a Cretaceous Woodbine sandstone and flowed light gravity oil from a depth of 8,200 feet after initial perforation. Full evaluation of this initial test, which encountered major mechanical difficulties while attempting to run casing, will be conducted during January, 1977. The initial offset well, Bonanza No. 1 Buchanan, 1¼ miles to the east encountered an identical Woodbine sand formation which has now been perforated and is flowing light gravity oil at rates in excess of 100 barrels per day.

The discovery is significant because the two initial tests occurred near the up-dip termination of the Woodbine sand formation. Also significant, are three recent completions by other companies; namely, Buttes and Ashland some eight miles east in Madison County which are currently producing from a Woodbine sand formation which appears to be similar to that found in the Bonanza wells. Three additional gas wells have recently been completed by Hill Oil Producers of Houston about 12 miles southeast of the Bonanza wells in what may be a separate Woodbine sand formation. It is noteworthy that Bonanza's land lies principally south, southeast and southwest of the discovery wells which lie some 500 feet structurally higher than the Buttes and Ashland wells making much of the acreage potentially productive. The Madisonville and Fort Trinidad fields, which lie to the east-northeast of the Buttes-Ashland wells, demonstrate the porous Woodbine sand formation can reach thicknesses in excess of 100 feet as one moves southward and downdip from the depositional sand edge. No other wells have been drilled in the vicinity of the Bonanza wells and accordingly, the extent of the formation is unknown.

In addition to the Woodbine, the Bonanza logs demonstrate highly fractured zones of Buda, Sub-Clarksville, and Austin chalk. Oil and gas shows were encountered in these zones while drilling. Significant local accumulations of oil and gas occur in these aforementioned units in the Madisonville and Fort Trinidad fields which lie 15 and 35 miles east-northeast respectively from the Bonanza wells. In view of the erratic nature of production from these zones and because very expensive treatment is required for commercial production, Bonanza will await additional drilling prior to conducting further evaluation.

Subsequent to the year end, the company has completed two additional stepout development wells, Bonanza No. 1 Odom and Bonanza No. 2 Odom, and anticipates spudding its fifth well in January, 1977. Results to date indicate that the Woodbine formation extends over an area of 5,000 to 7,000 acres which could involve a multi-well development program.

Bonanza Buchanan No. 1
Brazos, Texas.



Bonanza Odom No. 1
Brazos, Texas.

Rancho 1-14 Colorado.

Bonanza Aliminex Rancho 1-22
Colorado.

In addition to the aforementioned producing horizons, the area has recently gained attention for its deeper potential; in particular, Jurassic Smackover production which would occur at depths in excess of 20,000 feet. A number of major companies are presently involved in seismic programs across Bonanza acreage, and it is possible that part of the acreage will be farmed out in 1977 for a deep test.

Pipeline Terminal and
Battery Facilities
St. Martinville, Louisiana.

St. Martinville, Louisiana

This prospect lies some ten miles southeast of Lafayette, Louisiana. Bonanza has interests varying from 87½% to 100% in 2,000 acres on this highly complex salt dome structure. To September, 1976, in excess of 300,000 barrels of oil and 1.2 MMCF of gas having a gross value in excess of $4 million had been produced from Bonanza's three 100% owned wells since 1973 when the initial well was drilled.

A north offset well, Bonanza No. 1 Bienvenue, drilled during 1976 encountered 130 feet of oil pay and 70 feet of gas pay. The well was successfully dual completed and is currently producing its oil allowable of 180 BOPD from one zone and 160 barrels of oil from another. The addition of this well brings the total daily oil and gas production at St. Martinville to 670 barrels and .7 MMCF per day respectively.

Drill logs and core data have indicated seven separate productive zones and have also confirmed the locations of the various faults which indicate the need for several additional locations to further develop this prospect. In this regard the Bonanza No. 1 Labbe, approximately ¾ mile south of the existing producing wells, will be drilled during January, 1977.

In addition to the production zones shallower than 10,000 feet several wells owned by others on the salt dome produce gas at rates in excess of 5.0 MMCF per day from deeper horizons. In order to test the theory that gas is present at greater depths on the Bonanza acreage, the Company is currently negotiating with a major company to drill an 11,500 foot deep test approximately one mile southwest of the recently completed Bienvenue well on acreage 87½% owned by Bonanza.

Routt County, Colorado

Bonanza participated in the drilling of the Alminex Bonanza Rancho 1-14 which was completed as a Niobrara oil discovery about 130 miles northwest of Denver, Colorado. The well encountered a highly fractured Niobrara formation from 3,960 feet to 5,100 feet and from 5,290 feet to 5,450 feet. Based on preliminary tests, the well appears capable of producing 120 barrels of light gravity oil per day. Subsequent to the year end, the second well in the project was successfully completed as a Niobrara oil well approximately 1 mile south of the discovery well. Bonanza, with the drilling of this second well, has earned a 26% working interest in some 11,000 contiguous acres in the area. The discovery well is four miles north of the Tow Creek Anticline which has produced in excess of 3 million barrels of oil from the Niobrara formation at depths ranging to 3,000 feet.

The absence of water in the initial two wells, its proximity to the Tow Creek Anticline wells and two wildcat successes drilled by other companies to the south in the past year indicates that a large portion of the Bonanza acreage may ultimately be productive. A third well will be drilled during January, 1977.

Land Holdings and Reserves

Bonanza Odom No. 1 Development Well
Brazos, Texas.

Land Holdings

As at September 30, 1976, the company's land holdings were as follows:

	Acres Gross	Acres Net
Leases and rights		
Canada	368,700	93,660
U.S.A.	75,500	34,614
Royalties	485,808	21,194

It is anticipated that a number of wells will be drilled on these lands by the company during 1977. The company has also been made aware of the fact that a significant number of wells will be drilled by other operators on offsetting lands which, if successful, will enhance the value of the company's holdings.

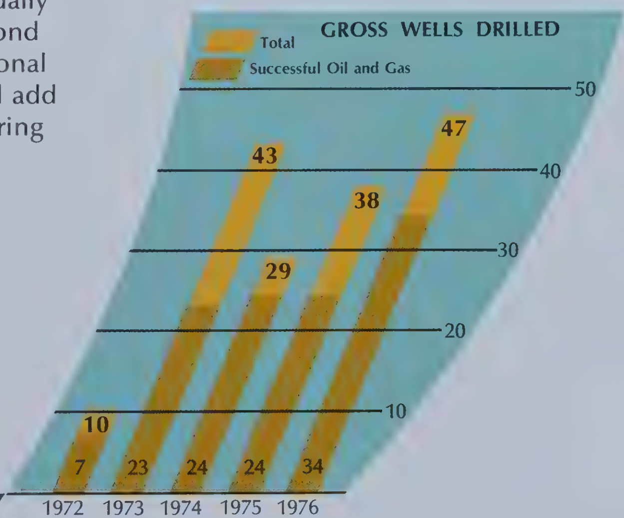
Reserves and Production

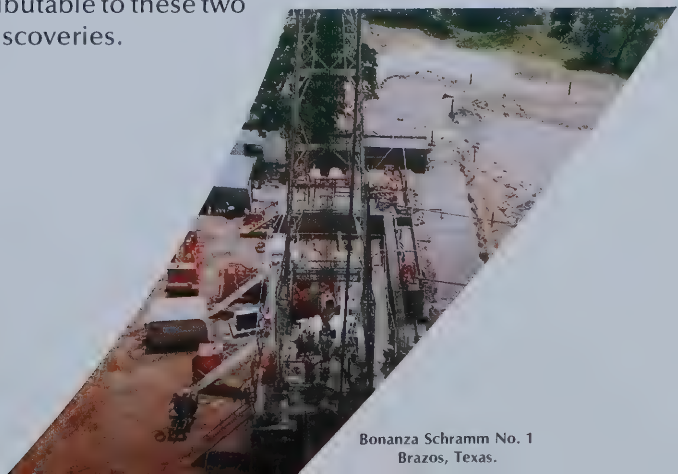
The company's share of proven and probable reserves before provincial royalties but after other gross overriding royalties as at September 30, 1976, totalled 2.6 million barrels of oil and 90 billion cubic feet of natural gas.

The estimated present worth of such reserves discounted at 9% as determined by independent reservoir engineers was $28.5 million.

Recent discoveries made by the company in Brazos County, Texas, and Routt County, Colorado, are not included in the foregoing as additional drilling is required to determine the reserves attributable to these two important discoveries.

Average daily production for the year ended September 30, 1976, was 620 barrels of oil and 5.1 million cubic feet of natural gas. The company is presently producing at the rate of 1000 barrels of oil per day and 10.0 million cubic feet of natural gas per day. This increase is primarily the result of a number of the company's properties that were placed on stream during the latter part of the company's 1976 fiscal year. Recent discoveries in Texas and Colorado will add approximately 350 barrels of oil per day to the company's daily production during the second quarter of 1977, and additional development drilling could add appreciably to that rate during the latter part of the year.





Bonanza Schramm No. 1
Brazos, Texas.

Amalgamated Bonanza Petroleum Ltd.
and Subsidiary Companies

Consolidated Statement of Earnings

Year Ended
September 30, 1976

	1976	1975
REVENUE		
Oil and gas operations	**$2,426,782**	$1,586,506
Interest and other income	**318,232**	130,933
	2,745,014	1,717,439
EXPENSES		
Oil and gas operations	**362,978**	166,656
General and administrative	**278,164**	219,669
Interest	**196,293**	134,069
	837,435	520,394
FUNDS GENERATED FROM CONTINUING OPERATIONS	**1,907,579**	1,197,045
CHARGES NOT REQUIRING FUNDS		
Depletion and depreciation	**659,487**	463,884
Non-productive foreign exploration	**150,000**	147,085
Deferred income taxes	**386,200**	281,500
	1,195,687	892,469
EARNINGS BEFORE UNDER-NOTED ITEMS	**711,892**	304,576
OTHER ITEMS		
Gain on sale of oil and gas properties, net of applicable deferred income taxes of $1,010,000	**1,760,359**	—
Loss from discontinued operations, net of recovery of applicable income taxes of $103,500	—	(167,687)
	1,760,359	(167,687)
EARNINGS BEFORE EXTRAORDINARY ITEM	**2,472,251**	136,889
Gain on sale of Lind Ranches Limited, net of applicable income taxes of $57,900	—	189,672
NET EARNINGS	**$2,472,251**	$ 326,561
PER SHARE		
Funds generated from continuing operations	**$.53**	$.33
Earnings before extraordinary item	**$.68**	$.04
Net earnings	**$.68**	$.09

Consolidated Statement of Retained Earnings

Year Ended September 30, 1976

	1976	1975
BALANCE AT BEGINNING OF YEAR	**$2,724,698**	$2,506,096
Net earnings	**2,472,251**	326,561
	5,196,949	2,832,657
Dividends	**107,959**	107,959
BALANCE AT END OF YEAR	**$5,088,990**	$2,724,698

Consolidated Statement of Changes in Financial Position

Year Ended September 30, 1976

	1976	1975
SOURCE OF FUNDS		
From continuing operations	**$1,907,579**	$1,197,045
From other operations		
Proceeds on sale of oil and gas properties	**3,217,782**	—
Discontinued operations	**—**	(160,270)
	5,125,361	1,036,775
Sale of Lind Ranches Limited	**—**	601,794
Bank production loans	**2,107,000**	(266,524)
Issue of common shares	**164,690**	—
	7,397,051	1,372,045
APPLICATION OF FUNDS		
Fixed assets	**7,823,663**	2,229,960
Deferred gas revenue	**51,301**	(130,072)
Dividends	**107,959**	107,959
	7,982,923	2,207,847
DECREASE IN WORKING CAPITAL	**585,872**	835,802
Working capital at beginning of year	**1,009,512**	1,845,314
WORKING CAPITAL AT END OF YEAR	**$ 423,640**	$1,009,512

Amalgamated Bonanza Petroleum Ltd.
and Subsidiary Companies

Consolidated Balance Sheet

September 30, 1976

ASSETS

	1976	1975
CURRENT ASSETS		
Cash	$ 527,894	$ —
Short-term investments, at cost which approximates market	—	800,000
Accounts receivable	2,010,879	1,081,919
Inventory of supplies, at lower of cost and net realizable value	210,799	415,320
	2,749,572	2,297,239
FIXED ASSETS		
Petroleum, natural gas and mineral leases and rights together with exploration, development and equipment thereon, at cost (note 1)	15,685,514	8,480,376
Accumulated depletion and depreciation	1,329,009	690,624
	14,356,505	7,789,752
	$17,106,077	$10,086,991

Approved by the Board:

Fleming, Director

William A. Bell, Director

LIABILITIES

	1976	1975
CURRENT LIABILITIES		
Bank indebtedness	$ —	$ 478,189
Accounts payable and accrued charges	2,325,932	809,538
	2,325,932	1,287,727
DEFERRED GAS REVENUE	167,435	218,736
BANK PRODUCTION LOANS (note 2)	3,307,000	1,200,000
DEFERRED INCOME TAXES (note 1)	1,968,600	572,400

SHAREHOLDERS' EQUITY

	1976	1975
CAPITAL STOCK (note 3)		
Authorized		
6,000,000 common shares of no par value		
Issued		
3,671,636 shares (1975 — 3,598,636 shares)	4,248,120	4,083,430
RETAINED EARNINGS (Note 4)	5,088,990	2,724,698
	9,337,110	6,808,128
	$17,106,077	$10,086,991

Auditors' Report

To the Shareholders of
Amalgamated Bonanza Petroleum Ltd.

We have examined the consolidated balance sheet of Amalgamated Bonanza Petroleum Ltd. and its subsidiaries as at September 30, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
November 23, 1976
except for the information
contained in note 6 as to
which the date is December 15, 1976.

THORNE RIDDELL & CO.
Chartered Accountants

Notes to Consolidated Financial Statements

Year Ended
September 30, 1976

1. ACCOUNTING POLICIES

a) **Principles of Consolidation**

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, Bonanza Explorations Ltd., Bonanza Resources Inc. and Bishop Minerals Ltd. to the date of its dissolution on December 11, 1975.

b) **Oil and Gas Properties**

The companies follow the full cost method of accounting for costs related to the exploration and development of petroleum and natural gas properties. Such costs are accumulated on an area of interest basis and are amortized on the unit of production method based on estimated recoverable oil and gas reserves in each area or are written off to income if exploration activities in any area are determined to be unsuccessful.

c) **Income Taxes**

The companies follow the tax allocation method of accounting under which the income tax provision is based on the earnings reported in the accounts. Under this method, the companies provide for deferred income taxes to the extent that income taxes otherwise payable are eliminated by claiming capital cost allowances and exploration and development costs in excess of the depreciation and depletion provisions reflected in their accounts.

2. BANK PRODUCTION LOANS

The bank production loans are evidenced by demand promissory notes and are secured by the company's interest in certain petroleum and natural gas properties and a general assignment of accounts receivable. The loans are repayable out of future production proceeds and, accordingly, are not expected to require the use of existing working capital; therefore, no portion of the loans have been reclassified to current liabilities. Reference is made to Note 6.

3. CAPITAL STOCK

a) During the year the company issued 73,000 common shares for $164,690 cash on exercise of stock options.

b) As of September 30, 1976, options are outstanding which enable officers and key employees to purchase 20,000 common shares at $2.62 per share, exercisable from time to time to April, 1979, and 34,000 shares at $2.00 per share, exercisable from time to time to January, 1981. Other options are outstanding enabling the holder to purchase 105,000 shares at $2.25 per share exercisable to December 31, 1976.

4. DIVIDEND RESTRICTION

The company is subject to the Canadian Federal Anti-Inflation Act which provides for restraint of dividends in Canada. Under the legislation the company is restricted in the payment of dividends during the year ended September 30, 1977 to a maximum amount of $618,000 based on its 1976 earnings.

5. DIRECTORS' AND SENIOR OFFICERS' REMUNERATION

Remuneration to directors and senicr officers (including the five highest paid employees) of the company for the year ended September 30, 1976 amounted to $166,300.

6. SUBSEQUENT EVENT

Subsequent to September 30, 1976, the company issued $1,000,000 principal amount of 7% Convertible Income Debentures due December 15, 1981 and $1,750,000 principal amount of 9% Convertible Sinking Fund Debentures due December 15, 1983. The debentures are convertible into common shares of the company at a price of $6.25 per share and, accordingly, 440,000 common shares of the capital stock of the company have been reserved to allow for the conversion of the debentures.

The proceeds from the issue of debentures were applied against the company's outstanding bank production loans. The balance of the production loans are expected to be repaid during 1977.

Amalgamated Bonanza Petroleum Ltd.
and Subsidiary Companies

Consolidated Summary of Earnings

	Year Ended September 30			
	1973	1974	1975	1976
Revenue				
Oil and gas operations	$ 70,584	$618,946	$1,586,506	$2,426,782
Ranch operations, net	105,868	—	—	—
Interest and other income	221,019	208,881	130,933	318,232
	397,471	827,827	1,717,439	2,745,014
Expenses				
Oil and gas operations	17,856	60,904	166,656	362,978
General and administrative	171,943	231,274	219,669	278,164
Interest	83,711	69,979	134,069	196,293
	273,510	362,157	520,394	837,435
Funds generated from continuing operations	123,961	465,670	1,197,045	1,907,579
Charges not requiring funds				
Depletion and depreciation	57,168	188,187	463,884	659,487
Non-productive foreign exploration	—	—	147,085	150,000
Deferred income taxes	10,000	122,500	281,500	386,200
	67,168	310,687	892,469	1,195,687
Earnings from continuing operations	56,793	154,983	304,576	711,892
Earnings (loss) from discontinued operations — Lind Ranches Limited	—	19,100	(167,687)	—
Net earnings before extraordinary items	56,793	174,083	136,889	711,892
Gain on sale of shares in subsidiary company	978,900	—	—	—
Gain on sale of Lind Ranches, net applicable income taxes of $57,900	—	—	189,672	—
Gain on sale of properties (net of applicable deferred income taxes 1976 — $1,010,000)	—	—	—	1,760,359
	$1,035,693	$174,083	$326,561	$2,472,251
Per share				
Funds generated from continuing operations	$0.04	$0.13	$0.33	$0.53
Earnings from continuing operations	$0.02	$0.04	$0.08	$0.19
Net earnings	$0.30	$0.05	$0.09	$0.68

AMALGAMATED BONANZA PETROLEUM LTD.

AND SUBSIDIARY COMPANIES

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